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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000964

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AF/S FOR H.SERVIN-BAEZ
SENIOR AFRICA DIRECTOR C. COURVILLE

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TAGS: PGOV PREL ECON ZI CH
SUBJECT: GOZ HYPING CHINA'S ROLE IN ZIMBABWE,S ECONOMY

Classified By: Charge d'affaires Michael Raynor under Section 1.4 b/d

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Summary

¶1. (C) Despite GOZ attempts to hype supposed dividends from its relationship with China including the June visit of Vice President Joyce Mujuru to Beijing, business sector contacts tell us that promised Chinese investments have largely failed to materialize. The only major industry in which Chinese investors appear to hold sway is in tobacco, where Chinese buyers consume a third of national output, according to industry contacts. Instead, Chinese investors, like many others, appear to have become disenchanted with Zimbabwe's abysmal business environment and economic mismanagement. In addition, a popular backlash against the perceived influx of substandard Chinese products has emerged. End Summary.

Desperately Seeking(Anyone

¶2. (C) Following up on President Robert Mugabe's pilgrimage to Beijing a year ago, Mujuru visited Beijing in early June in an attempt to encourage investment and drum up support for the GOZ's latest economic turnaround plan. (N.B. Perhaps showing the lopsided nature of this courtship, Chinese Premier Wen sidestepped Zimbabwe on his seven African nation tour also in June.) According to state-controlled media, Mujuru signed two investment contracts with Chinese firms in exchange for chrome sales from Zimbabwe's parastatal Mining Development Corporation (ZMDC). In a deal ostensibly valued at US$1.3 billion, China National Machinery and Equipment Import and Export Corporation reportedly agreed to develop three thermal power stations in blackout-prone Zimbabwe. Additionally, Star Communications of China reportedly inked a US$60 million contract to provide radio and television

equipment to Zimbabwe's state broadcaster.

¶3. (C) Mujuru's state-media-grabbing visit coincided with the visit of several relatively unremarkable Chinese delegations that have received front-page coverage in the GOZ's papers. Portrayed as evidence of the success of the GOZ's "Look East" policy, the local media have hyped the recent visits of a delegation seeking to establish more "sister city" relationships, a team exploring potential methane gas reserves in Matabeleland, and representatives of the China Aero Technology Import and Export Company who followed up on the sale of three MA60 passenger planes to Air Zimbabwe last year.

¶4. (C) Opposition MP and pro-Senate faction of the MDC foreign affairs secretary Moses Mzila Ndlovu told poloff on June 22 that the GOZ's emphasis on relatively small gestures from China is an indication of how desperate for international support ZANU-PF has become. Ndlovu said that Mugabe had resorted to "political prostitution." In the absence of personal ties between GOZ and Chinese leaders, a common liberation war history and anti-colonialist ideology were the only binding ties. According to Ndlovu, the Chinese, however, were increasingly looking for profitable business deals, often putting them at loggerheads with the hand-out seeking GOZ.

Coming Back Empty Handed

¶5. (C) Business sector contacts caution us that the deals

that Mujuru signed were merely MOUs and not actual business contracts. As such, they were only the first of many steps necessary before actual investment flowed into Zimbabwe. Local economic commentator Eric Bloch told poloff on June 23 the GOZ was hyping the agreements in an effort to demonstrate foreign confidence in the Zimbabwean economy and to show dividends from the government's latest economic revival scheme. Bloch added that the Chinese were well aware of what has happened to other foreign investors in Zimbabwe and are seeking iron-clad, internationally arbitrated agreements to prevent the GOZ from seizing assets.

¶6. (C) Tongai Muzenda, the commercial director of ferrochrome-maker Zimbabwe Alloys, told poloff on June 22 that the recent chrome-backed MOUs signed by Mujuru were largely smoke and mirrors. ZMDC owned only 10 percent of the chrome fields in Zimbabwe and was not currently producing any of the mineral. Investors from China, the world's fastest growing market for chrome, already operated one small chrome mine and basic processing plant in Mashonaland West. Muzenda, however, assessed that there was little new acreage for the GOZ to offer the Chinese, since the two largest chrome producers are indigenous firms and as such not subject to proposed legislation that would nationalize foreign mining companies.

¶7. (C) Alluding to the generalities of the ZMDC deal, economic analyst John Robertson told poloff on June 21 that this was the case for most of Zimbabwe's "contracts" with China. Recounting nine deals supposedly agreed to a year ago, such as refurbishment of the railway, steel, and coal parastatals, Robertson noted that none of the projects had yet commenced. In fact, deals with the national steel company and in the platinum industry that the Chinese had been eying have gone to investors from Russia and India. (N.B. Based on limited conversations with government officials and coverage in the state media, the GOZ appears to have shifted its hopes for support to these two countries.) Perhaps the only major deal to materialize is Sino-Cement, but Bloch noted that builders were essentially boycotting the company's overpriced and poor quality cement.

Tobacco Provides Only Vice

¶8. (C) In contrast to other sectors, Zimbabwe Tobacco Association President Andrew Ferreira told poloff on June 21 that China has become the dominant foreign actor in the tobacco industry, purchasing roughly one-third of Zimbabwe's national output. (N.B. Official Chinese trade data for 2005 show that tobacco accounted for 81 percent of its imports from Zimbabwe.) According to Ferreira, Chinese smokers have a preference for Zimbabwe tobacco despite declining quality in recent years.

¶9. (C) Ferreira told poloff that Chinese buyers were eager to guarantee their future access to Zimbabwean tobacco. Accordingly, two Chinese companies have entered into contracts with tobacco farmers in an effort to circumvent the more volatile auction floors. Ferreira also said that the GOZ had allocated Chinese investors two tobacco farms in Mashonaland West, but could not provide additional details. Ultimately, he said, Chinese buyers hoped that Zimbabwe would revive output to about 180 million kilograms, as compared to the current output of circa 50 million kilograms. Recognizing that the lack of reliable power supplies is one of the chief obstacles to that goal, Ferreira said the Chinese had put pressure on the parastatal power company to guarantee a supply to their contract farmers.

Honeymoon Coming to an End

¶10. (C) Robertson said that the Chinese had become disenchanted with the GOZ's failure to repay loans and to make payment on capital equipment, and with the ham-handed manner in which the bilateral relationship had been handled. This was especially true in light of the large-scale payments made to the IMF over the past year. (N.B. Exemplifying this, an independent newspaper reported in May that six Chinese firms had abandoned projects in Zimbabwe due to non-payment.) Chinese visitors were often embarrassed by the intense state-controlled media coverage and the GOZ's penchant for announcing deals before they were formally agreed upon. Robertson noted that this put Chinese investors in the awkward position of either accepting an ill-conceived proposal or backing away from high-profile "contracts."

¶11. (C) Smaller-scale Chinese merchants have also begun to lose interest in Zimbabwe, according to several of our retail industry contacts. Robertson explained that many Chinese merchants flocked to Zimbabwe under the easy immigration procedures of the GOZ's "Look East" policy and brought with them the one allowed shipping container of duty-free merchandize, which they then sold at a substantial profit. The initial attraction, however, quickly wore off, according to Robertson, as sales dropped in line with the country's dwindling purchasing power. Like their local competitors, many Chinese merchants have since closed shop due to the economic hardships.

¶12. (C) Moreover, the flood of sub-standard Chinese consumer products, or "zhing-zhong" as it is derisively called, has sparked popular resentment against the Chinese, according to several of our contacts. Japanese diplomats tell us that they are often on the receiving end of criminal attacks and derogatory comments from Zimbabweans who mistake them for Chinese. The resentment has even spread to Bulawayo, where civic leader Gordon Moyo told poloff on June 23 that despite the city's relatively small Chinese population the locals were was increasingly xenophobic. Bulawayo Mayor Japhet Ndabeni Ncube on June 23 added that locals often blamed the business-savvy Chinese for creating and taking advantage of Zimbabwe's economic woes.

Comment

¶13. (C) Chinese investors)like those from other countries - are eying Zimbabwe's natural abundance and economic potential with desire. However, in contradiction to the state-controlled media, Chinese investors are not flocking to Zimbabwe as they are to other parts of Africa. Despite the talk of shared ideology and comradeship, the Chinese appear to have made the business assessment that venturing into Zimbabwe is simply very risky and not likely to be profitable. To this end, China joins the likes of Libya, Malaysia, and Iran in the growing list of the GOZ's disillusioned suitors.
RAYNOR